

Understanding the Statement of Cash Flows Report

Question:

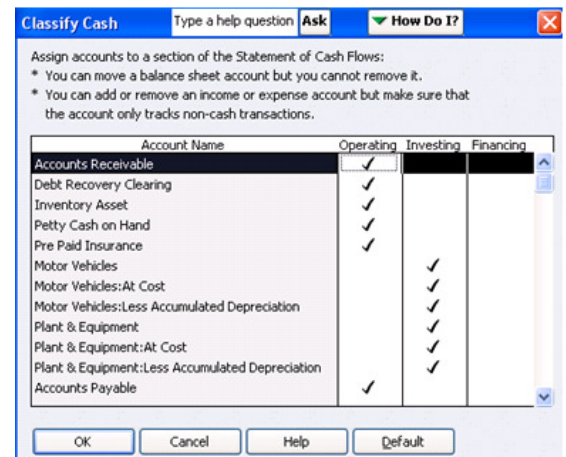
“My Profit & Loss shows that I am making a profit however my bank accounts haven’t increased by this amount. Is there a report to help explain where my profit has gone?”

Answer

This is a common question by many small business owners and operators and QuickBooks has a number of reports that can assist in showing just where the money (profit) has gone over a particular time period. One such report is the Statement of Cash Flows Report (or sometimes known as the Sources and Applications of Funds Report). Essentially this report can help explain how the movement in the Bank Account Balances for any given period has occurred. This is usually made up of a combination of the Profit & Loss for the period together with the movement in each Balance Sheet account, from this you can also determine where the Profit has gone (or been absorbed).

Step 1

Via the **Reports** drop down menu select **Company & Financial** and then **Statement of Cash Flows**. Select the **Classify Cash** button at the top right hand corner of the report. This will take you to a preference setting where you can choose to classify each Balance Sheet account under one of three categories (**Operating, Investing or Financing**). Whilst this categorisation is optional it can assist in understanding where the money is going in the business (be it for **Operating** the actual business, **Investing** the funds retained in the business or **Financing** of the business activities). Once you have “Classified the Cash”, select **OK** and then a date range to produce the Statement of Cash Flows Report for - e.g. Last Financial Year.



Step 2

At first glance this can be a challenging report to interpret however by understanding the layout and representation of the figures you can soon gain a thorough understanding as to why your bank accounts may not contain all of your profit. We would recommend reading this report from the “Bottom Up”, by starting with the Movement in the Bank Account balances for the period. In the following example the Cash Position (Bank Accounts) of the business have increased by \$233,563.51 however the Profit & Loss (at the top of the report) shows a Profit of \$553,252.61 so why don’t we have all of this money in the Bank? The report shows the various movements in each of the Balance Sheet accounts (under the various classification headings) to show whether those accounts have either contributed to the bank balance movement or detracted from it and therefore absorbed some of the Profit & Loss. By

taking the time look at each account you can start to see why the full Profit & Loss figure has not (yet) flowed through to the Bank Accounts of the business. When looking at each individual Balance Sheet account movement it is important to know the type of account (i.e. Asset, Liability or Equity) so you can accurately interpret the numbers that are displayed on this report. A rule to follow is if the Account is an Asset Type and the amount shown is a positive figure then this amount has contributed to the cash within the business (i.e. a reduction in Accounts Receivable would show up as a positive figure on this report as this would normally have the effect of increasing the bank accounts as you have reduced the amount of money owed to you by your customers). If the Balance Sheet Account is a Liability or Equity Type and the amount shown is a negative figure then this amount has detracted from the cash flow of the business (i.e. a decrease in Accounts Payable shows up as a negative figure on this report and would also have the effect of decreasing the bank accounts as you have you owe less to your suppliers than the year before).

So basically you can read each line as follows:

**If it is a positive figure it helps the cash flow
if it is a negative figure it hurts the cash flow.**

Although within the balance sheet movements displayed in this report there are also cross-relationships which potentially have the effect of cancelling (or partially cancelling) out the effect of each movement on the Cash Flow of the business. For example if you have an increase in Inventory (which is an asset account) and also an increase in the Accounts Payable liability account because you still owe creditors for this inventory then each of these accounts would show on the Statement of Cash Flows report (as a Negative and Positive figure respectively) but no cash has changed hands at this stage so the bank accounts have not been effected (likewise the Profit & Loss would not have been impacted until the inventory is actually sold and the bank account would not be impacted until funds are received for the sale).

Note: Should you require assistance in the Classification of your Balance Sheet Accounts then we would suggest you contact your Accountant or Reckon Accredited Consultant to assist you in this process. We would also recommend reviewing the Statement of Cash Flows Report together with the Balance Sheet Movement Report - for further information on reporting on the movement of the Balance Sheet accounts please refer to **Answer Sheet # 149** also refer for **Answer Sheet #398** for reviewing the entire General Ledger Account movements for any given period which can also provide further insight in to the business performance during a certain financial period.

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| Cougar Enterprises | |
|---|-------------------|
| Statement of Cash Flows | |
| July 2011 through June 2012 | |
| ◊ Jul '11 - Jun 12 ◊ | |
| OPERATING ACTIVITIES | |
| Net Income | 553,252.61 |
| Adjustments to reconcile Net Income to net cash provided by operations: | |
| Accounts Receivable | -623,222.25 |
| 12100 · Inventory Asset | 116,811.30 |
| Pre Paid Insurance | 16,482.36 |
| 20000 · Accounts Payable | -17,234.69 |
| PAYG Installment | -50,000.00 |
| PAYG - ABN Withheld | 93.00 |
| BAS Clearing Account | 16,257.00 |
| 24000 · Payroll Liabilities:Westpac resc... | 26.50 |
| 24000 · Payroll Liabilities:Superannuat... | -2,646.12 |
| 25500 · Tax Payable | -289.88 |
| Net cash provided by Operating Activities | 9,529.63 |
| INVESTING ACTIVITIES | |
| Motor Vehicles:At Cost | -26,363.64 |
| Motor Vehicles:Less Accumulated Depre... | 15,420.00 |
| Net cash provided by Investing Activities | -10,943.64 |
| FINANCING ACTIVITIES | |
| Loan - Bank | 234,867.32 |
| Directors Loan | 110.00 |
| Net cash provided by Financing Activities | 234,977.32 |
| Net cash increase for period | 233,563.51 |
| Cash at beginning of period | 255,224.74 |
| Cash at end of period | 488,788.25 |